European Crisis and the U.S.

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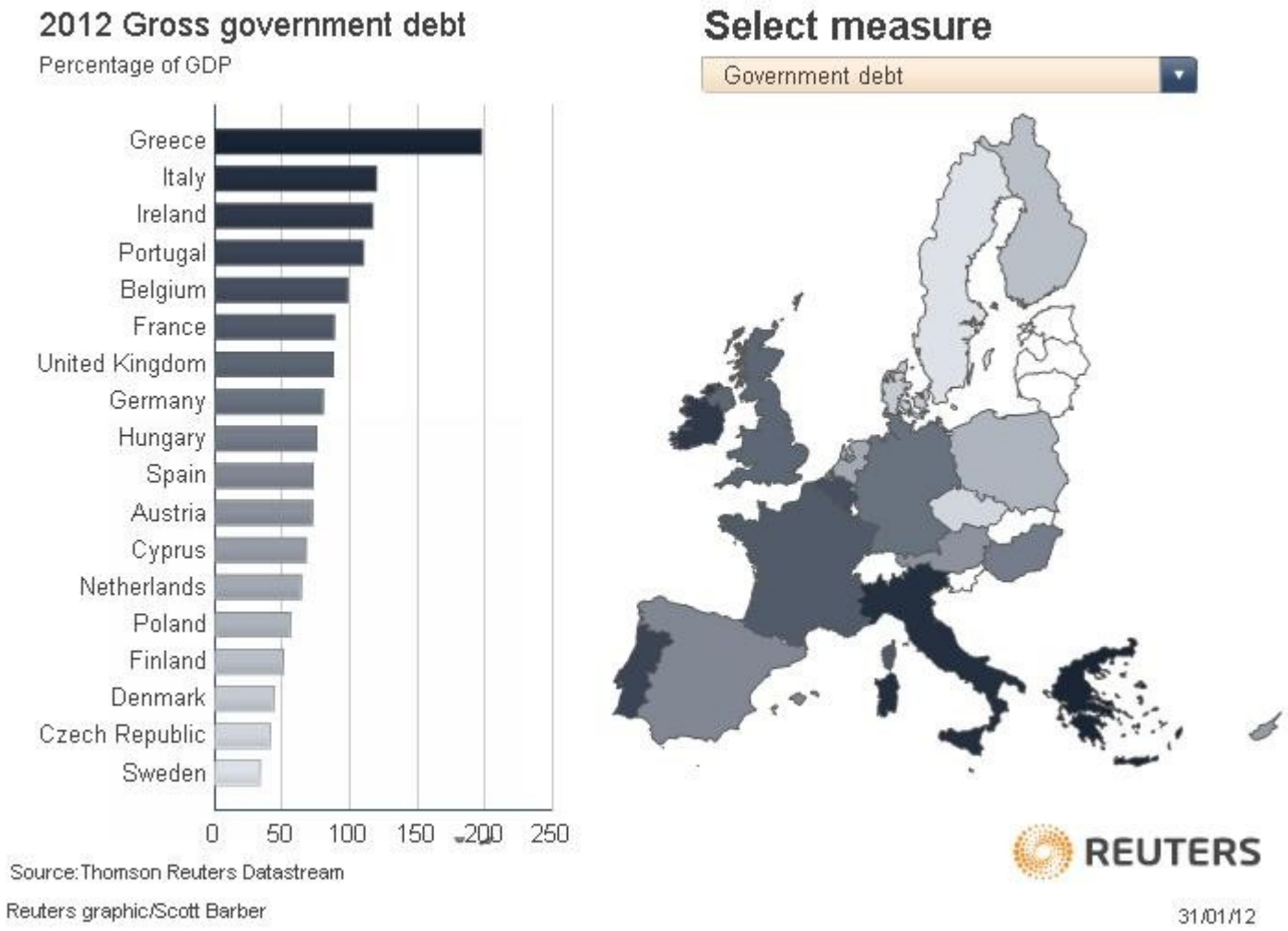
What is happening in Europe?

- Many of European economies are in difficult situation. But the focus has been on the PIGS (Portugal, Italy, Greece, and Spain) that are the largest. The most immediate issue relates to Greece which is in danger of default
- What is the issue?
 - Many of these countries have Hugh government programs and borrowing. Highly subsidized education system, great deal of benefits for retirees, free healthcare, just to name a few.
 - European Union has a target rate for country debt/GDP
 - Therefore, these countries have to either cut their public program (that leads to huge protests by various constituencies), leave European Union, or default. Neither of them is a good choice.

The **Stability and Growth Pact (SGP)**

- The actual criteria that member states must respect are:
 - an annual budget deficit no higher than 3% of GDP (this includes the sum of all public budgets, including municipalities, regions, etc.)
 - A national debt lower than 60% of GDP or approaching that value.

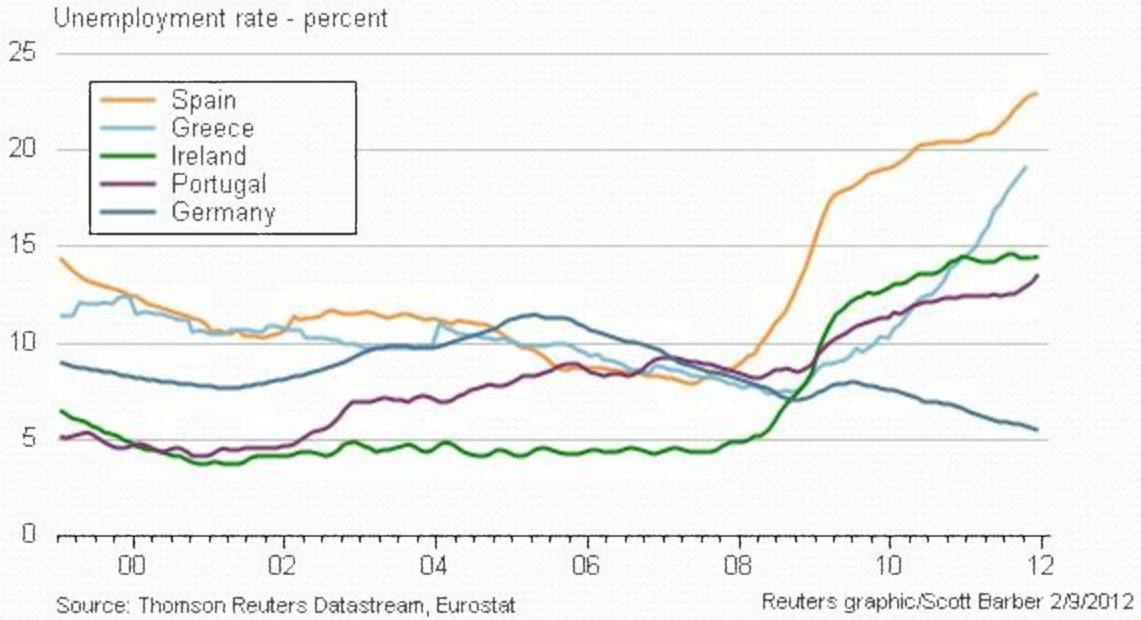
European country overview



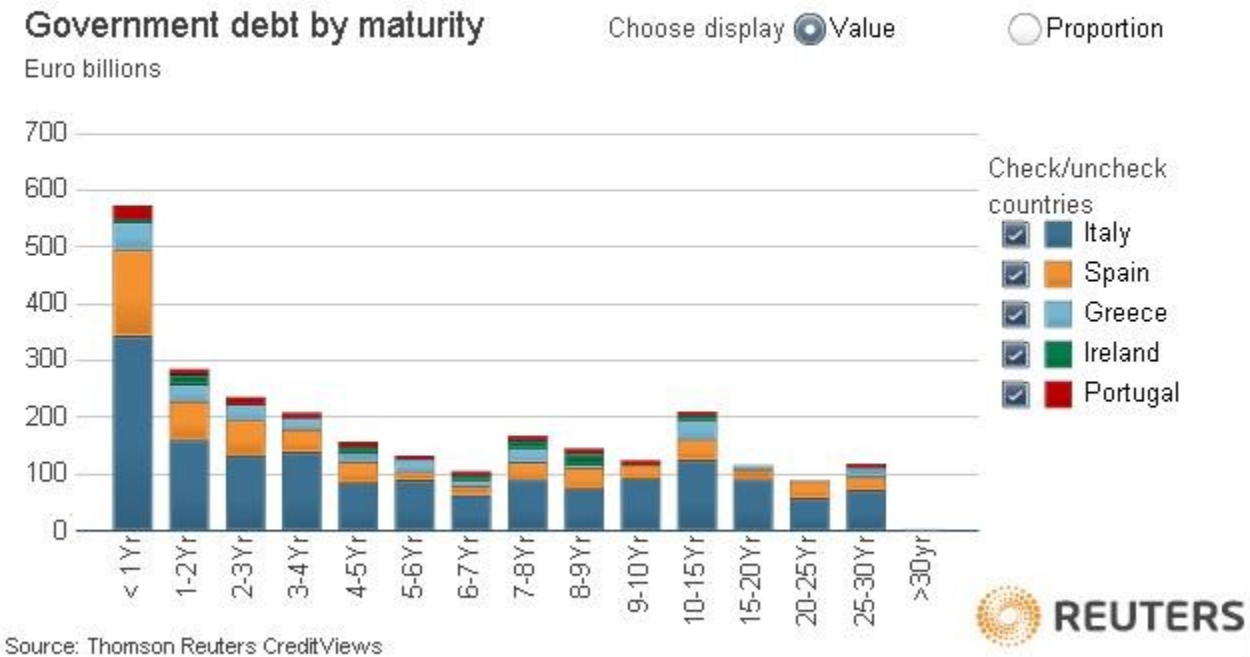
Economic Policy, Debt, and refinancing

- During the period of growing economy this was not an issue but two things has happened
 - Economic growth has slowed down and many are recession
 - Unemployment is high
 - Policy to address economic decline and unemployment is fiscal stimulus
 - Additionally much of their debt are maturing and need to be refinance

Euro zone unemployment



Peripheral government debt maturity

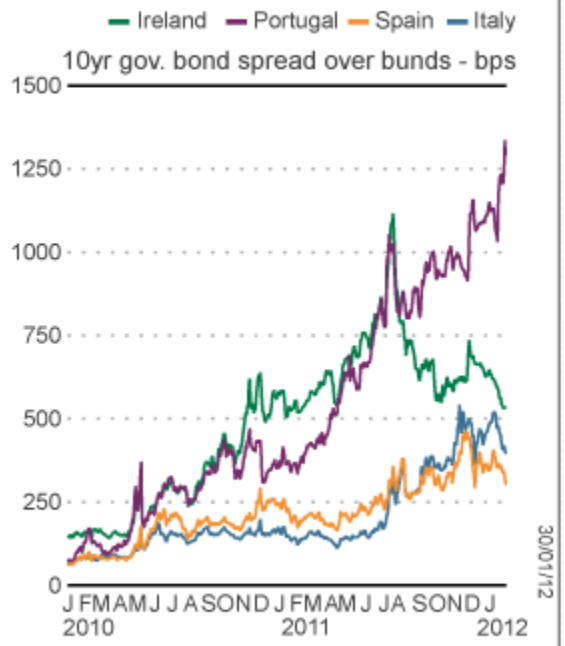


Reuters graphic/Scott Barber

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Euro zone credit ratings

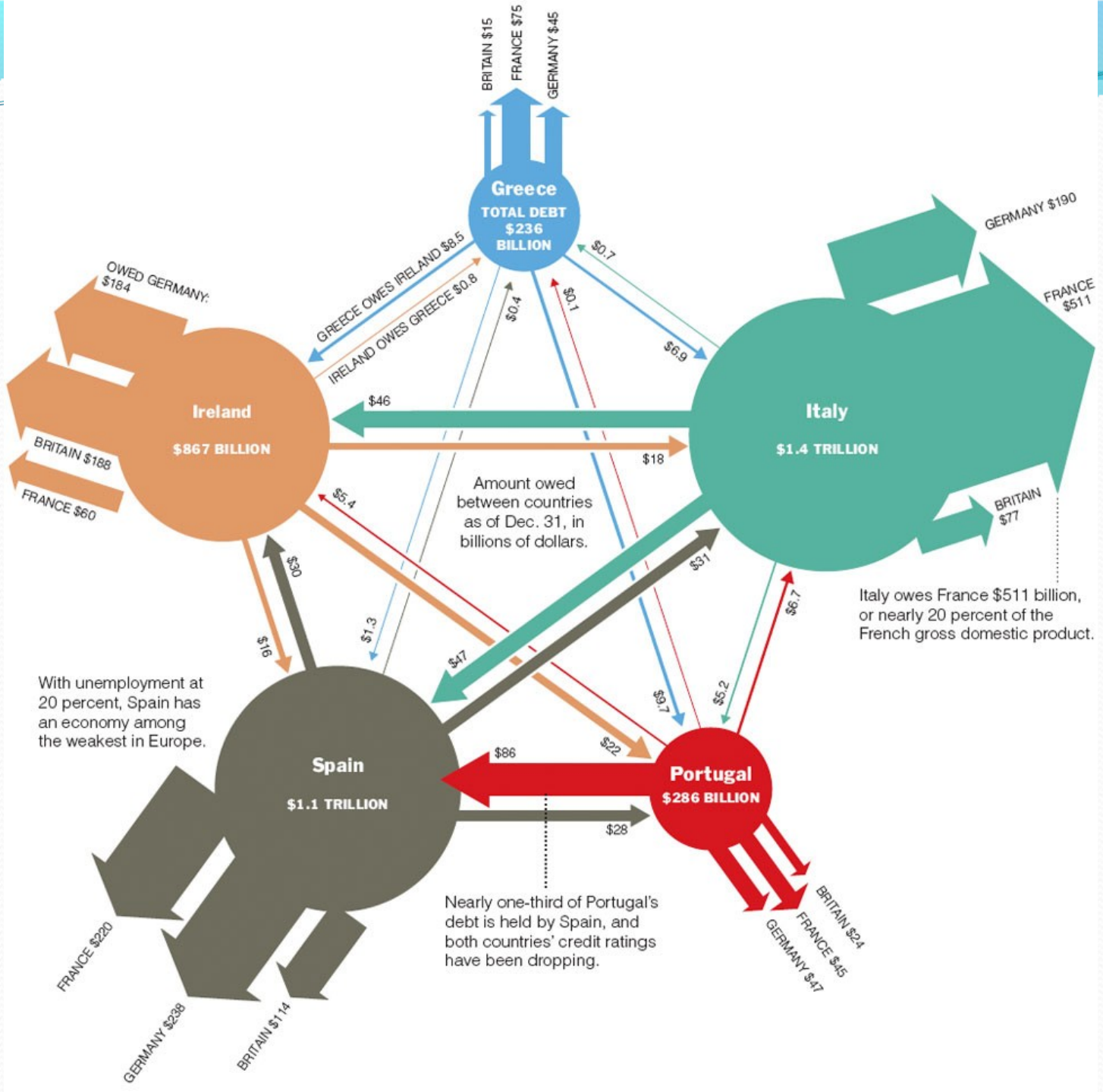
Country	S&P	Moody's	Fitch	5yr CDS
Greece	CC	Ca	CCC	6,315
Portugal	BB	Ba2	BB+	1,472
Ireland	BBB+	Ba1	BBB+	560
Italy	BBB+	A2	A-	315
Spain	A	A1	A	268
Belgium	AA	Aa3	AA	184
France	AA+	Aaa	AAA	94
Germany	AAA	Aaa	AAA	83



Sources: Thomson Reuters

Reuters graphic/Scott Barber

REUTERS


BRITAIN $15
FRANCE $75
GERMANY $45
Greece
TOTAL DEBT
$236
BILLION
GREECE OWES IRELAND $8.5
IRELAND OWES GREECE $0.8
$0.4
$0.1
$0.7
$6.9
OWED GERMANY:
$184
Ireland
$867 BILLION
BRITAIN $188
FRANCE $60
$46
$18
Italy
$1.4 TRILLION
GERMANY $190
FRANCE
$511
BRITAIN
$77
Amount owed
between countries
as of Dec. 31, in
billions of dollars.
$5.4
$30
$16
$1.3
$47
$31
$6.7
Italy owes France $511 billion,
or nearly 20 percent of the
French gross domestic product.
With unemployment at
20 percent, Spain has
an economy among
the weakest in Europe.
$9.7
$5.2
$86
$22
Spain
$1.1 TRILLION
Portugal
$286 BILLION
$28
Nearly one-third of Portugal's
debt is held by Spain, and
both countries' credit ratings
have been dropping.
FRANCE $220
GERMANY $238
BRITAIN $114
BRITAIN $24
FRANCE $45
GERMANY $47


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U.S. Bank Exposure to Europe

- U.S. bank exposure to PIIGS is $641 billion
- U.S. bank exposure to German and French banks is $1.2 trillion
- If we include U.S. over all financial exposure including Credit default swap (CDS) the total could reach $4 trillion
- A collapse of a major European bank could produce similar problems in U.S. institutions

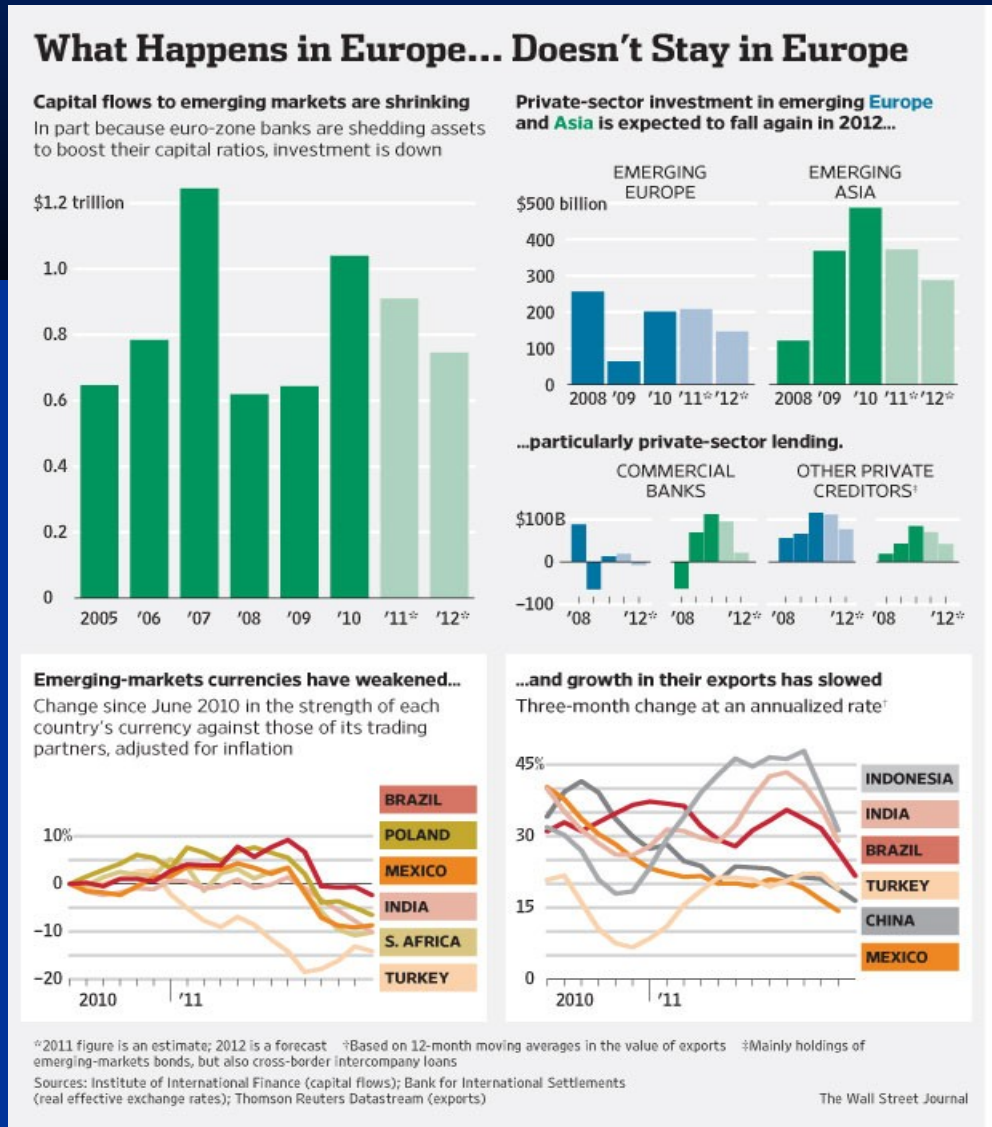
What are the possible choices for Europe

- Bail out of the weaker economies by the major countries such as Germany and France, through European Monterey System (EMS) and European Central Bank (ECB)
- Force reform of the weaker countries (as condition for bail out) that may lead to even weaker economic condition of Europe
- Let the countries that can not meet "European Conditionality" to leave Europe Union.

New Hampshire, Euro & Greek Crisis

Evangelos Otto Simos

Spillover Effects EURO Recession



How Much are New Hampshire Companies Exposed to EURO AREA?

Euro Area: A Major Destination for State Exports

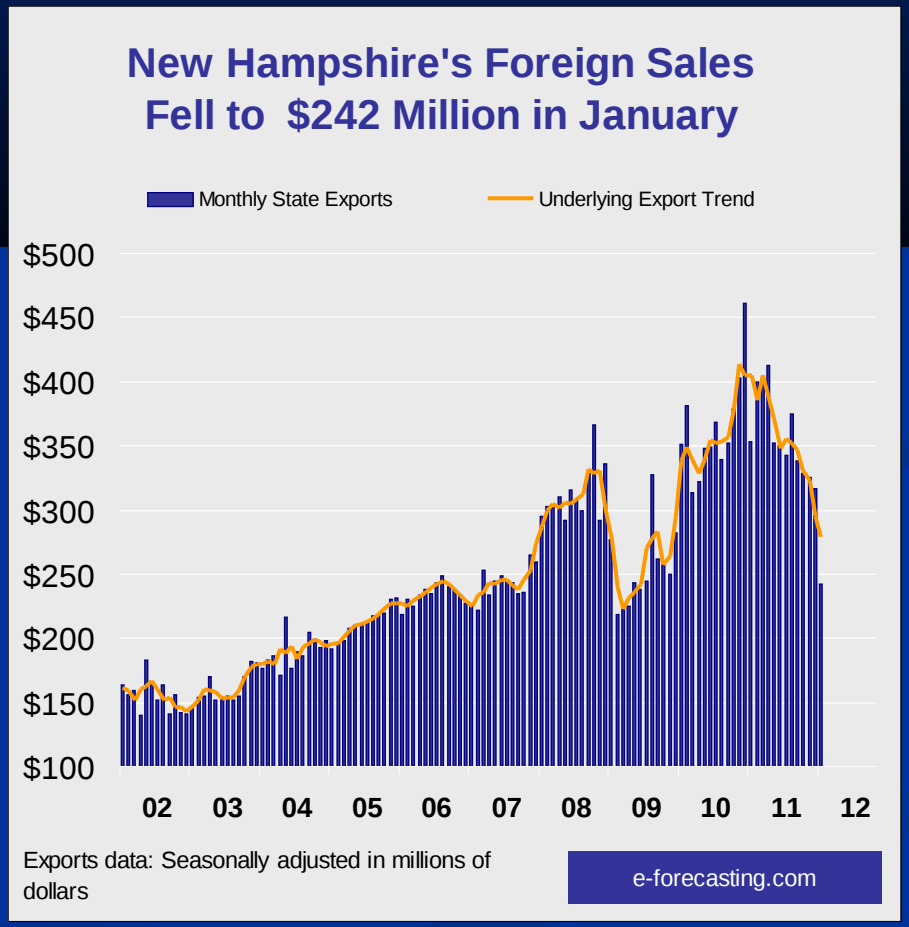
Rank of Exposure	State	Exports to Euro Area[1]	Export Growth[2]	Euro Area Importance[3]
1	Connecticut	$345	19.0	30.0
2	West Virginia	$225	60.7	28.6
3	Indiana	$559	-3.7	22.8
4	South Carolina	$426	26.9	21.3
5	New Jersey	$575	43.4	20.7
6	Massachusetts	$423	-8.4	19.7
7	Rhode Island	$28	-23.7	18.9
8	**New Hampshire**	**$49**	**-0.6**	**18.4**
9	Alabama	$245	16.6	17.7
10	Maryland	$148	24.1	17.2
11	Missouri	$187	15.6	16.9
12	Pennsylvania	$498	10.6	15.6
13	Kentucky	$244	-0.1	15.4
14	Louisiana	$740	-28.9	15.2
15	Minnesota	$224	-8.4	14.9
16	Virginia	$203	-19.7	14.9
17	New York	$940	1.4	14.3
18	North Carolina	$288	-11.1	14.1
19	Ohio	$519	27.9	13.9
20	Illinois	$693	7.8	13.3
	United States	**$15,048**	**2.7**	**12.7**

[1] Exports to Euro Area in January of 2012, in millions of dollars.

[2] Percent change in exports in January of 2012 from 2011.

[3] Ratio of exports to Euro Area to total exports, percent.

www. e-forecasting.com

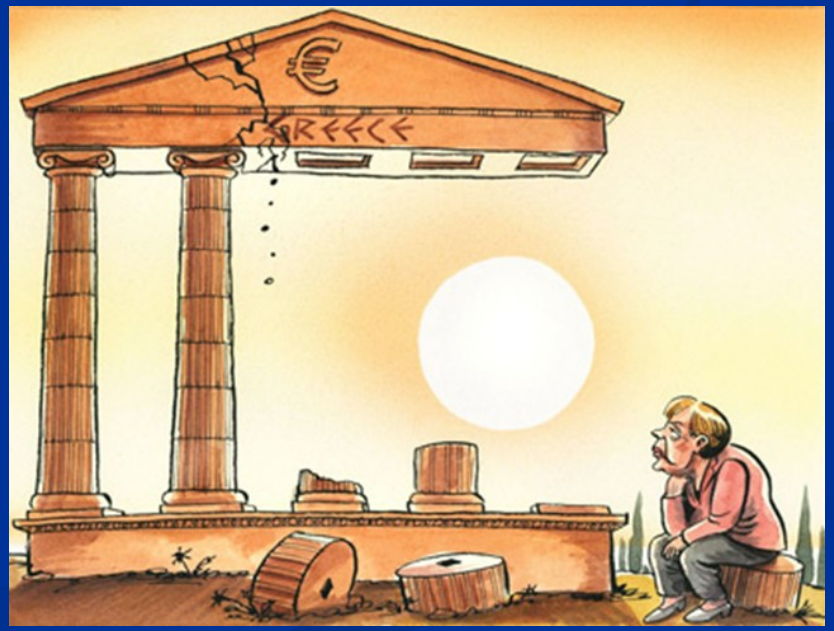


What a Differences 3000 Years Make

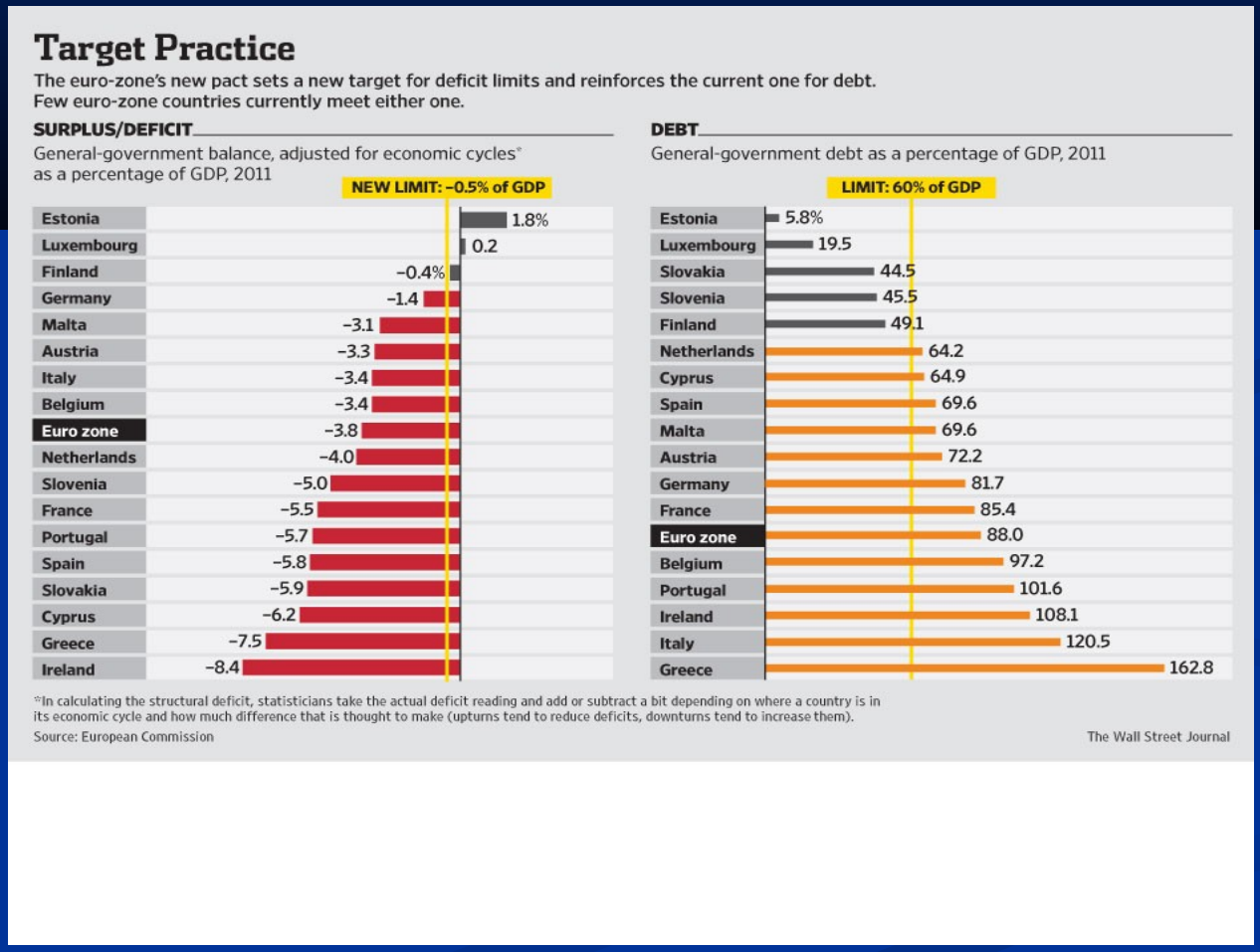
- Then, (origin)
- *Europa* was a Phoenician princess who was abducted by Zeus in bull form and taken to the Greek island of Crete



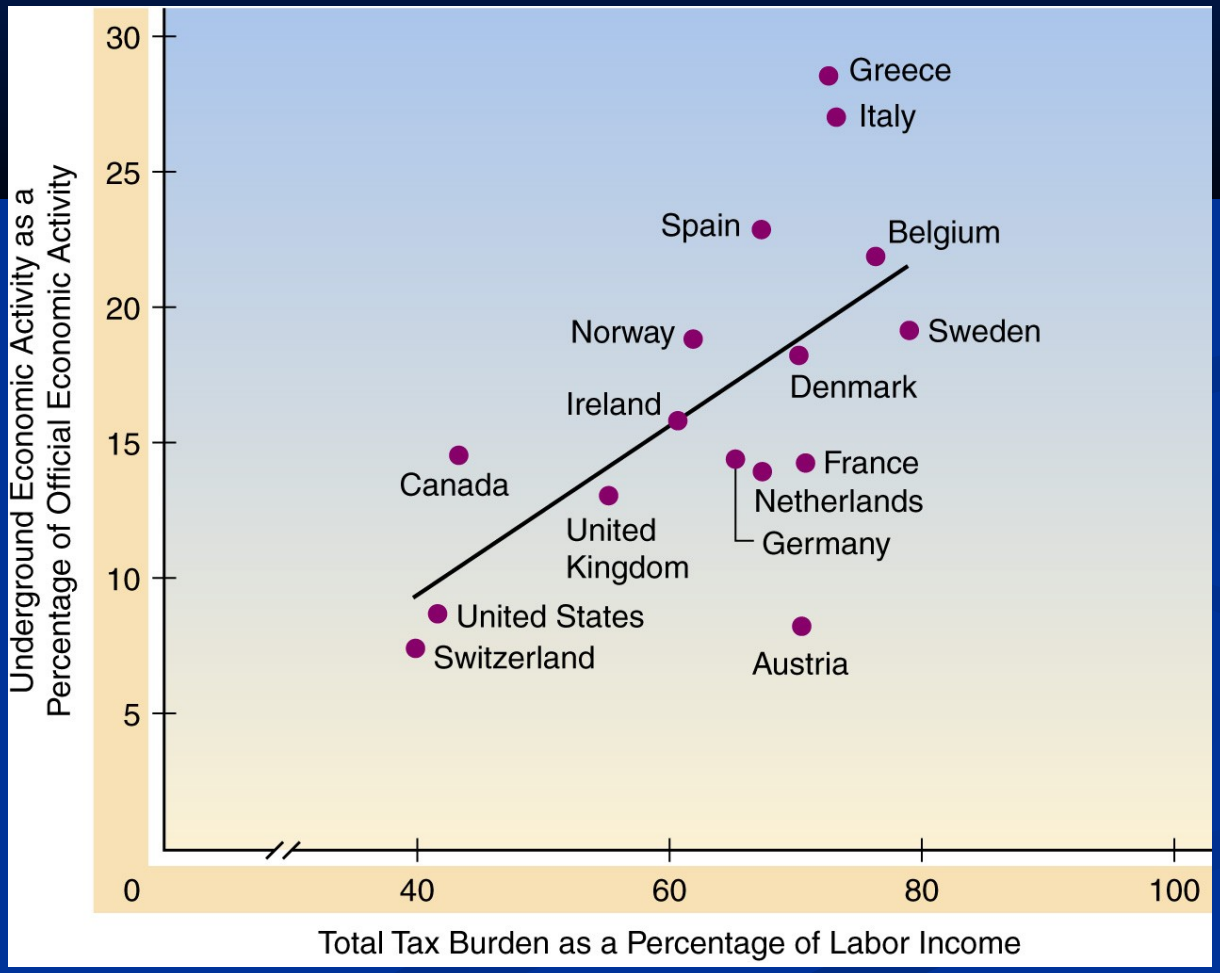
- Now, Greece may cause Euro's disintegration



What Were They thinking? Is The Party Over?



The Underground Economy and Income Tax Rates



By the Numbers

Indicator	Year	Greece	USA
GDP (current US$) (billions)	2008	356.8	14,204.30
GNI per capita, Atlas method (current US$)	2008	28,650	47,580
Life expectancy at birth, total (years)	2007	80	78
Population, total (millions)	2008	11.2	304.1
Population growth (annual %)	2008	0.4	0.9
School enrollment, primary (% net)	2007	99.6	92.4

Do Greeks Have Any Business Advantage?

- The Hellenic Merchant Marine refers to the **Merchant Marine of Greece**, consists of the merchant vessels owned by Greek civilians, flying either the Greek flag or a flag of convenience.
- Greece is the largest shipping-nation in the world with a total of 141,931,000 metric tons deadweight (DWT).

- Greece ranks first in both tankers and dry bulk carriers, fourth in the number of containers, and fourth in other ships.

What's the Cause of Greek Insolvency?

- Politics?
- Economics?
- Moral Hazard?

